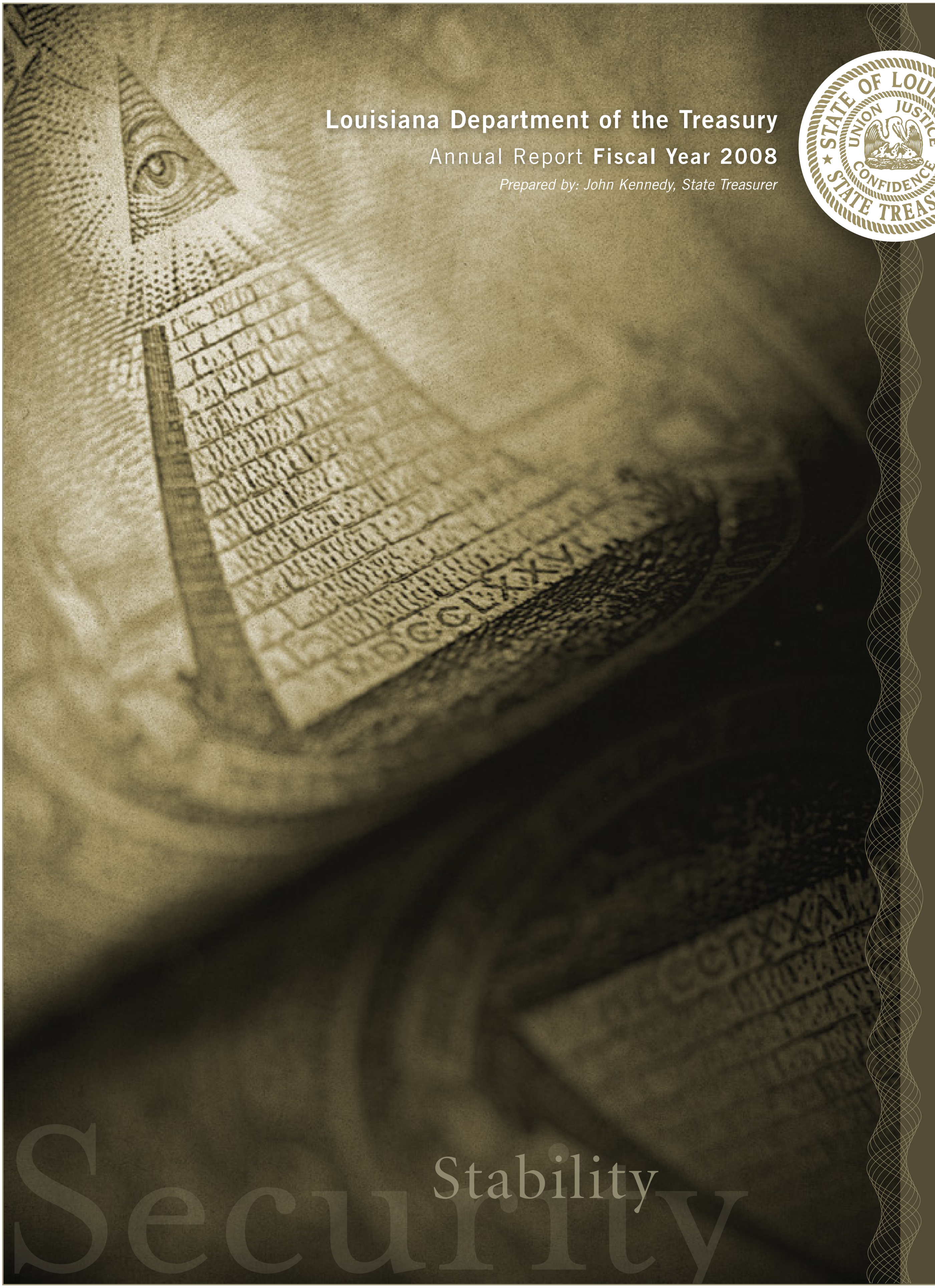


Louisiana Department of the Treasury

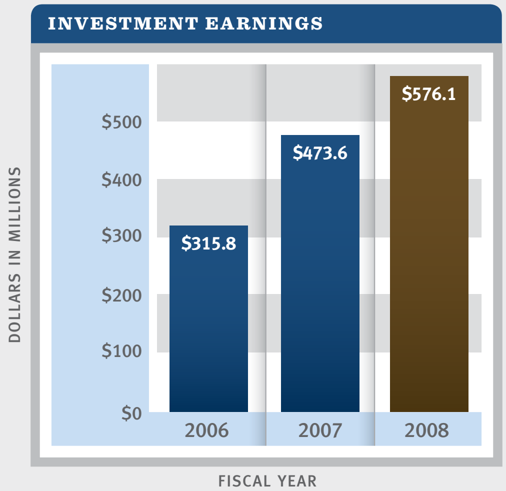
Annual Report **Fiscal Year 2008**

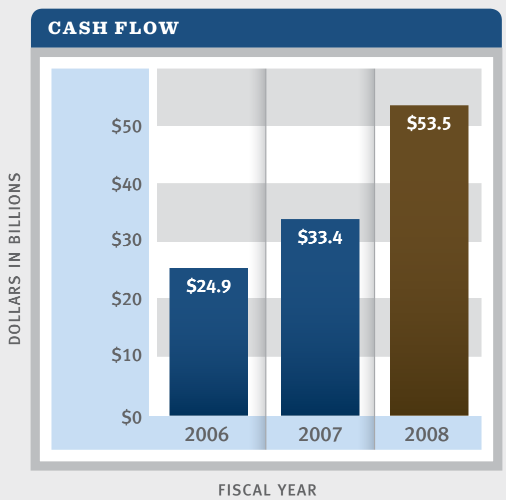
Prepared by: John Kennedy, State Treasurer

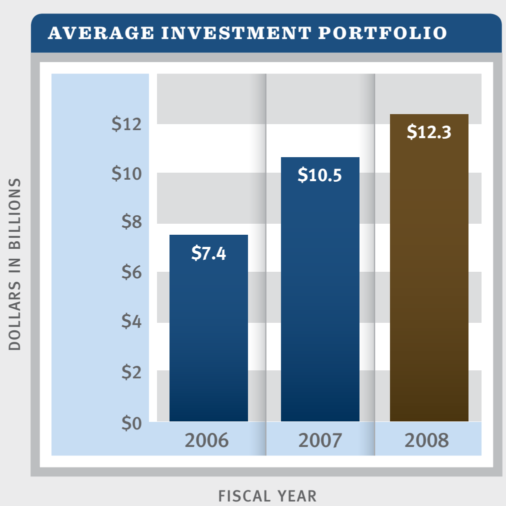
Stability

Security

FINANCIAL HIGHLIGHTS







- Managing the state's cash flow of over $53.5 billion.

- Earning $576.1 million on the state's investments including over $344.2 million for the Treasury Portfolios/General Fund.

- Generating a total of over $158.3 million in earnings for the state's three major trust funds which had the following cash basis simple yields: 5.39 percent for the Louisiana Education Quality Trust Fund (LEQTF), 4.47 percent for the Millennium Trust Fund, and 5.42 percent for the Medicaid Trust Fund.

- Awarding $310 million worth of certificates of deposit (CDs) to 70 banks statewide.

- Approving through the State Bond Commission 559 bond issues and refinancings for local governments, political subdivisions, public trusts, non-profits and industrial development boards, the proceeds of which will build and improve infrastructure and grow jobs.

- Servicing and managing 18 outstanding General Obligation Debt issues with payments totaling $281.8 million.

- Servicing and managing 3 Gas and Fuels Tax issues with annual debt payments in excess of $97 million.

- Collecting a record $52.6 million in unclaimed property from Louisiana businesses and refunding another all-time record of $21.7 million to Louisiana residents.

- Working with the Office of Student Financial Assistance to expand the START College Savings Program to 32,006 accounts and total deposits of $179.2 million.

Each year, we email the *Annual Summary on the Financial Condition of the State* to the Governor and members of the Legislature. The general public can view and download this publication at www.latreasury.com.

In this year's report, we provide a detailed description of the Louisiana Department of the Treasury's annual investment figures, performance and programs for Fiscal Year 2007–2008 (FY 2008). We also include information about relevant events leading up to our annual report's publishing date.

We hope this report will give you a better idea about the duties and responsibilities of the Treasury. We will continue to work to earn the best rate of return possible on taxpayer dollars and meet our goals of financial strength and durability of the state.

Sincerely,

John Kennedy
State Treasurer

About State Treasurer John Kennedy

John Neely Kennedy was elected without opposition to his third term as State Treasurer in October 2007. As Treasurer, he manages the state's $12.3 billion bank account including the investment of $3.1 billion in trust funds. He also oversees local and state bond issues and returns millions of dollars in unclaimed property each year. Prior to his position as Treasurer, Mr. Kennedy served as Secretary of the Department of Revenue, Special Counsel to Governor Buddy Roemer and Secretary of Governor Roemer's Cabinet. He was also an attorney and partner in the Baton Rouge and New Orleans law firm of Chaffe McCall. Mr. Kennedy graduated magna cum laude in political science, philosophy and economics from Vanderbilt, was president of his senior class, and elected to Phi Beta Kappa. He received his law degree from the University of Virginia and his B.C.L. degree from Oxford University in England where he was a First Class Honors graduate.

Mr. Kennedy is an adjunct professor at LSU Law School and is a substitute teacher for East Baton Rouge Parish public schools. He resides in Madisonville, Louisiana, with his wife Becky and their son, Preston. They are founding members of North Cross United Methodist Church.

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The mission of the Louisiana Department of the Treasury is to manage state funds by promoting prudent cash management and investment strategies as well as monitoring, regulating and coordinating state and local debt obligations as mandated by the Constitution and the laws of the state of Louisiana.

CHECKING

The Treasury operates as the state's bank. Most tax dollars, fees, federal funds and state revenues flow in and out of the Treasury for the operation of state government. So, while Treasury doesn't actually collect taxes or fees, or decide the amount of each state agency's budget, we are responsible for the safekeeping and tracking of most monies. The Treasury balances the checkbook for the state and manages money for state agencies like you would manage your checking account. The Treasury transfers money to various agencies and departments so they can provide services to the public.

LOANS

The Treasury, through the State Bond Commission, approves the issuance of public debt for local governments and organizations (like your bank approves consumer loans). This money is used to build roads, public buildings and other capital projects statewide. When a local or state public entity issues bonds in order to borrow money, the Bond Commission makes sure all of the financial statements are in order, that the project will cash flow, and that all of the legal requirements have been met.

SAVINGS/INVESTING

The Treasury protects taxpayer dollars in various trust funds and investments. The Treasury oversees all state investments including trust funds for healthcare, education, the TOPS scholarship program and START college savings accounts. Just as a banker or a financial planner oversees your retirement and various savings accounts, the Treasury buys stocks and bonds to earn money on state investments. In this way, the Treasury ensures that the state has many trust funds and protected cash to draw on for specific projects or when facing tough times.

LOST AND FOUND

Another job function of the Treasury that was added in the year 2000 is Unclaimed Property. The department will find lost or forgotten money belonging to Louisiana residents (and sometimes businesses or organizations) and work to return the money to its owners. The money is kept safe until it is claimed by the rightful owner.

TREASURY OPERATIONS

RECEIPTS
(MONEY IN)

STATE TAX DOLLARS

FEES

FEDERAL DOLLARS

BANKING & INVESTMENTS

THE TREASURY PERFORMS THE FOLLOWING ROLES:

BANKING - CHECKING AND SAVINGS ACCOUNTS FOR THE STATE OF LOUISIANA AND ITS AGENCIES

ACCOUNTING - ALLOCATING MONEY AND EARNINGS TO ONE OF 385 SPECIAL FUNDS

INVESTMENT MANAGEMENT - BUYING BONDS AND STOCKS TO EARN INVESTMENT INCOME ON MONEY SAVED OR KEPT IN THE TREASURY

THE TREASURY ACTS LIKE A BANK FOR STATE AGENCIES, PLUS A FEW EXTRA SERVICES! WE SAFEGUARD DEPOSITS AND EARN INTEREST WHILE THE MONEY IS WITH US AND TRACK THE DAILY FLOW OF CASH.

BOND COMMISSION
(FUNDRAISING)

THE BOND COMMISSION RAISES CAPITAL FOR PUBLIC PROJECTS BY ISSUING DEBT IN THE FORM OF STATE BONDS.

UNCLAIMED PROPERTY
(LOST & FOUND)

THE UCP DIVISION FINDS LOST OR FORGOTTEN MONEY BELONGING TO LOUISIANA CITIZENS AND BUSINESSES AND WORKS TO RETURN THE MONEY TO ITS OWNERS.

DISBURSEMENTS
(MONEY OUT)

STATE AGENCY OPERATIONS AND PAYROLL

PAYMENT OF VENDORS

PROVIDING PUBLIC SERVICES (HEALTHCARE, LAW ENFORCEMENT)

FACTS ABOUT THE TREASURY

The Treasury managed an average of $12.3 billion in monies in total invested funds in FY 2008.

The Treasury's general fund investment portfolio's cumulative income (since 1968) exceeded the $4.2 billion mark by June 2008.

The Treasury is the smallest staffed state department with 66 employees.

The Treasury managed 385 statutory and constitutionally created funds in 34 separate investment portfolios earning $576.1 million in FY 2008.

The Treasury utilizes a central cash management pooling concept to gain the maximum investment of monies. Through the centralized pooling of deposits, the treasury processed over 3.1 million deposit items and 72,731 credits in FY 2008 resulting in a cash flow of over $53.5 billion.

The Treasury serviced and managed 18 outstanding general obligation debt issues with payments totaling $281.8 million.

CASH FLOW

The cash deposited into the General Fund and the cash disbursed from the General Fund vary month-to-month during the fiscal year. The Legislature has provided a way to ensure that the state pays its obligations timely during the months where the cash disbursed from the General Fund exceeds the cash deposited into the General Fund. This is called interfund borrowing. The General Fund temporarily borrows cash from a group of special funds in the Treasury. The total cash balance in these special funds is called the interfund borrowing base.

The "Interfund Borrowing Base — FY 2008" chart on page 8 depicts the total cash available for borrowing by the General Fund at the end of each month of the fiscal year. As depicted, the General Fund has a large pool of cash available each month to meet its cash borrowing needs.

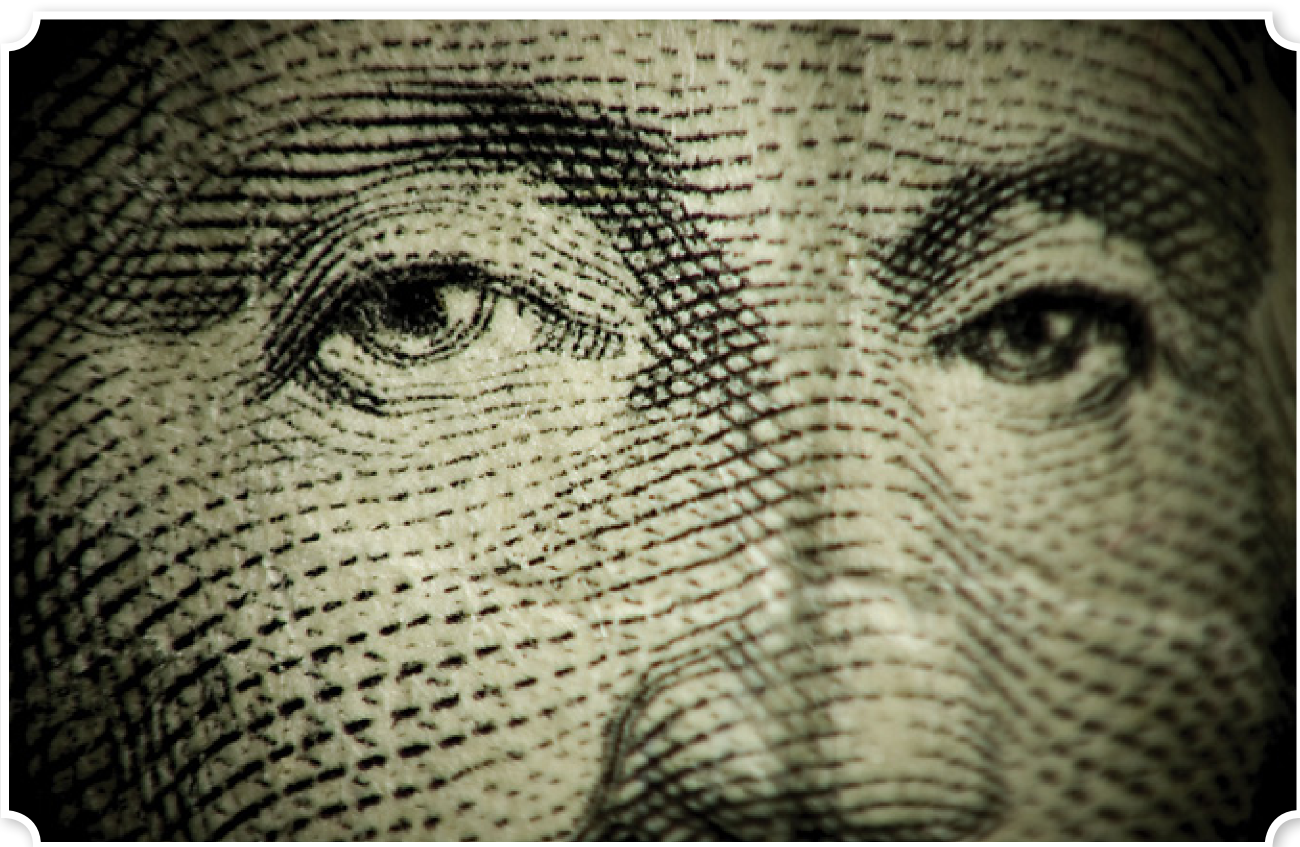
The "General Fund Month-End Balances — FY 2008" chart on page 8 depicts the cash balance of the General Fund at the end of each month. Points on the line graph below the $0 line reflect the amount of cash borrowed by the General Fund at the end of the month. Points above the $0 line reflect that the General Fund has a cash balance; thus, no interfund borrowing is required at the end of that month.

The legislation authorizing interfund borrowing requires that all borrowing be repaid by the close of the fiscal year. This requirement ensures that the General Fund does not spend money it will not collect in that fiscal year.

The chart reflects that all interfund borrowing that occurred during FY 2008 was repaid by June 30, 2008, the end of the fiscal year.

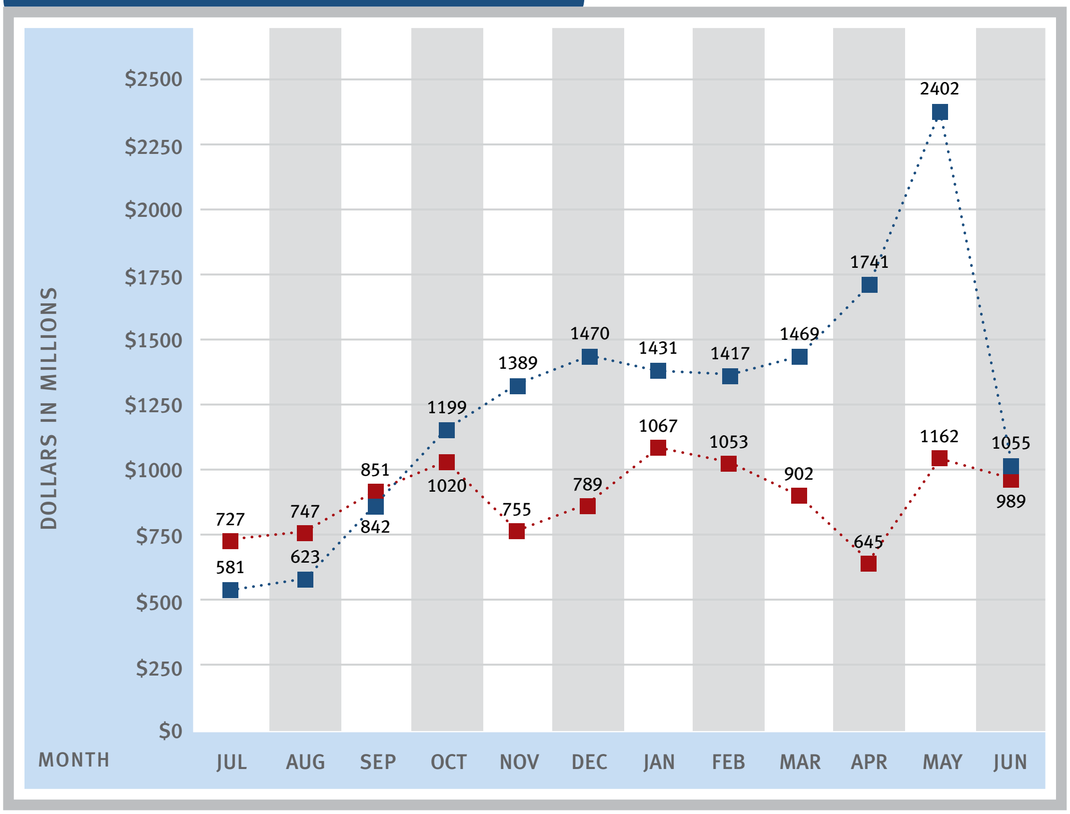
The General Fund Month-End Balances reflect a lower overall cash position in FY 2008 as compared to FY 2007. This reduction is due mainly to lower tax collections in FY 2008.

The Treasury monitors the state's cash position on a daily basis. The information gained from this monitoring is linked to the state's investments program, which assists the Treasury in gaining the highest available rate of return on its cash resources.



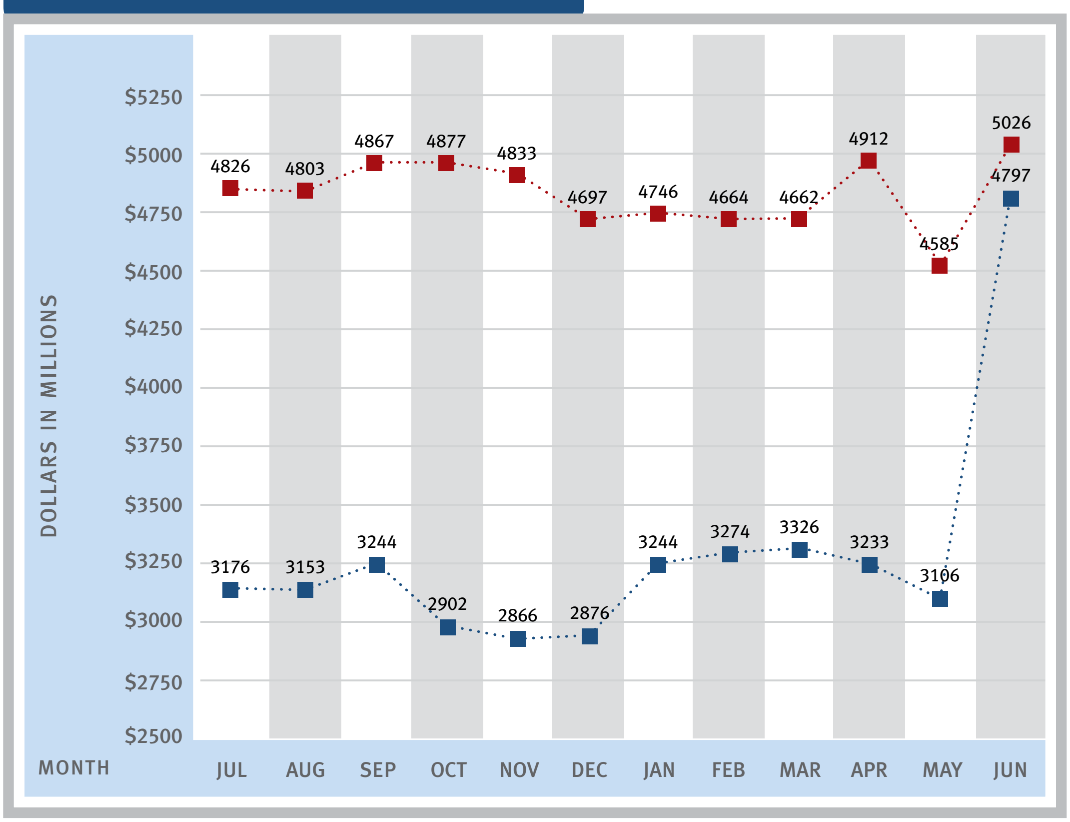
CASH FLOW

GENERAL FUND MONTH-END BALANCES



Source: Advantage Financial System (AFS), the state's centralized accounting system.

INTERFUND BORROWING BASE



Amounts represent the actual base at month end before interfund borrowing.
Source: Advantage Financial System (AFS), the state's centralized accounting system.

The Rainy Day Fund (Budget Stabilization Fund), approved by voters as a 1998 constitutional amendment, provides a means to stabilize recurring revenues each fiscal year to avoid budget cuts that adversely affect government services to the citizens of the state. It also creates a savings account to meet future emergency funding needs.

The cash balance in the Rainy Day Fund at the beginning of FY 2008 was $682.7 million. The Rainy Day Fund grew by $92.9 million in FY 2008 to reach the cap of $775.6 million. This growth came from the Fund's investment earnings in the amount of $19.8 million and a portion of non-recurring surplus revenues from FY 2007 in the amount of $73.1 million (as recognized by the Revenue Estimating Conference).

The Rainy Day Fund has continued to grow since its creation in 1999. Most of this growth has been derived from a portion of the General Fund surpluses and from excess mineral revenue over a statutory base. The Legislature has tapped the Rainy Day Fund twice since inception. The Revenue Estimating Conference in FY 2003 recognized $86.4 million from the Rainy Day Fund as part of the official forecast and in FY 2006 recognized $153.9 million following the aftermath of Hurricanes Katrina and Rita.

The Rainy Day Fund cap continues to increase each fiscal year, thereby providing a valuable resource for the stabilization of General Fund revenues.

"The Rainy Day Fund cap continues to increase each fiscal year, thereby providing a valuable resource for the stabilization of General Fund revenues."

THE YEAR IN REVIEW

There was some good news about FY 2008. It's hard to find amongst all the doom and gloom, but it's there. In the flight to safety, entities that held U.S. Treasury securities were rewarded; those who didn't had a harder year. Through the actions of the State Treasury, the State of Louisiana had invested in lots of U.S. Treasuries in 2008.

No matter how you measure inflation, it was higher in FY 2008 than it was in FY 2007, and it appears to be increasing. If you measure inflation using the Consumer Price Index (CPI), the increase in CPI for FY 2008 was 5.0 percent, up from 2.7 percent at the end of FY 2007. If you measure inflation using the increase in commodity prices, the Commodity Research Bureau index increase for FY 2008 was 51.05 percent.

Economic growth slowed markedly. Gross Domestic Product growth was 1.10 percent, down from 3.4 percent the fiscal year before. The Federal Reserve has definitely been trying to get ahead of this economic malaise, though. The Fed Funds rate was at 2.00 percent at the end of FY 2008, down from 5.25 percent the prior fiscal year. During this period, the S&P 500 Stock Index went from 1503.35 on June 30, 2007 to 1280.00 on June 30, 2008.

At of the close of the fiscal year on June 30, 2008, the annual return on 30-day Treasury Bills was 2.96 percent, Two-year Treasury Notes were 7.66 percent, the Lehman Brothers Government Credit Bond Index was 7.39 percent, and the total return on the S&P 500 Index was -13.12 percent.

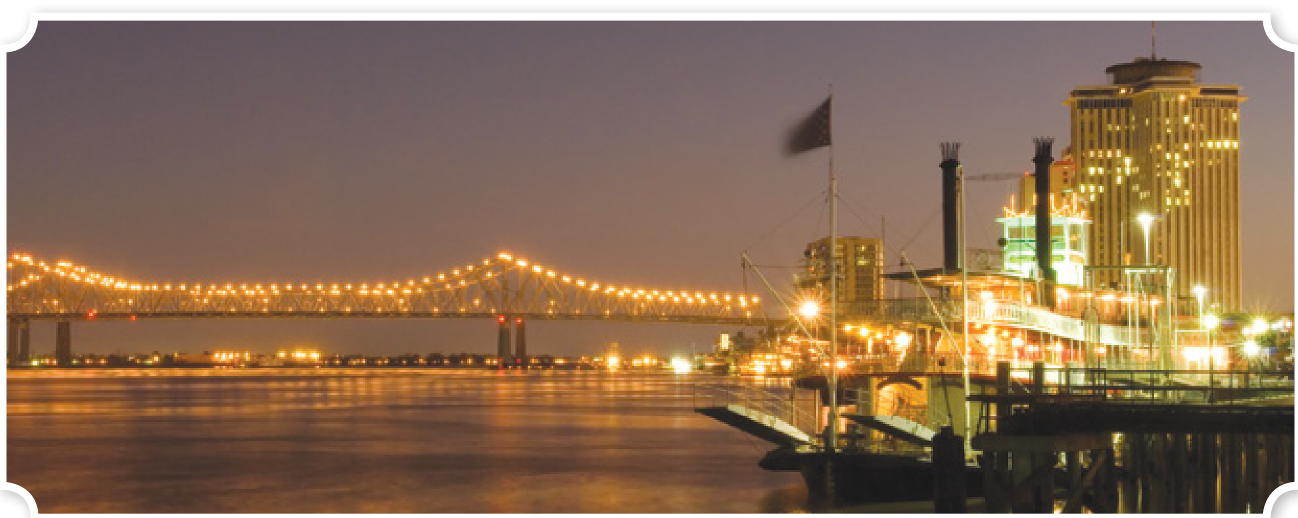
THE FINANCIAL CRISIS

It is now clear that financial intermediaries (banks, brokers, mortgage companies, finance companies, insurance companies, and government sponsored entities) all over the world were highly leveraged by off balance sheet strategies. The subsequent deleveraging process is causing asset price discounting and capital squeezing on balance sheets world wide. To illustrate the depth of this global problem, even Iceland stepped in to help its banks. That's right, Iceland…not exactly the banking capital of the world.

In very simplistic terms, in order to deleverage, an entity must do one or some of a few things. It must either sell assets, pay off liabilities, raise capital, any of the above, or all of the above. The problem today is that financial intermediaries world wide are trying to implement these strategies at the same time. Everyone is running for the exit doors at the same time. It is inevitable that someone is going to get trampled.

If everyone is selling assets, who is buying them and at what price? If everyone is trying to raise capital, aren't they competing with those trying to sell assets for the same precious dollars, euros, drachmas and yen?

Recent economic crisis history would cover the Stock Market Crash of 1987, the Savings & Loan Crisis in the 1990s, the Tech Bubble Bust in the 2000s, and the 9/11 terrorist attacks in 2001. The current situation feels very different, and much, much more severe. We have never seen the bond markets seize up; this is the



worst the bond markets have seen in the past 25 years. If companies can't issue corporate bonds, long term planning is impacted. If companies can't issue commercial paper, short term spending is impacted. Wal-Mart might be able to stop expanding, scale back operations and operate off of cash flow for a while…maybe. Firms like GE, Boeing and Caterpillar don't have that option. When long term corporate bonds can't be issued, new plants aren't going to get built. If short term commercial paper can't be issued, existing plants are going to close.

Right now there is a fundamental lack of faith in counterparties. No one knows who will be the next financial intermediary to fail, so no one wants to be exposed to any financial intermediary if they can help it. Everyone is acting in a very defensive manner. This results in liquidity drying up and trading and underwriting stopping.

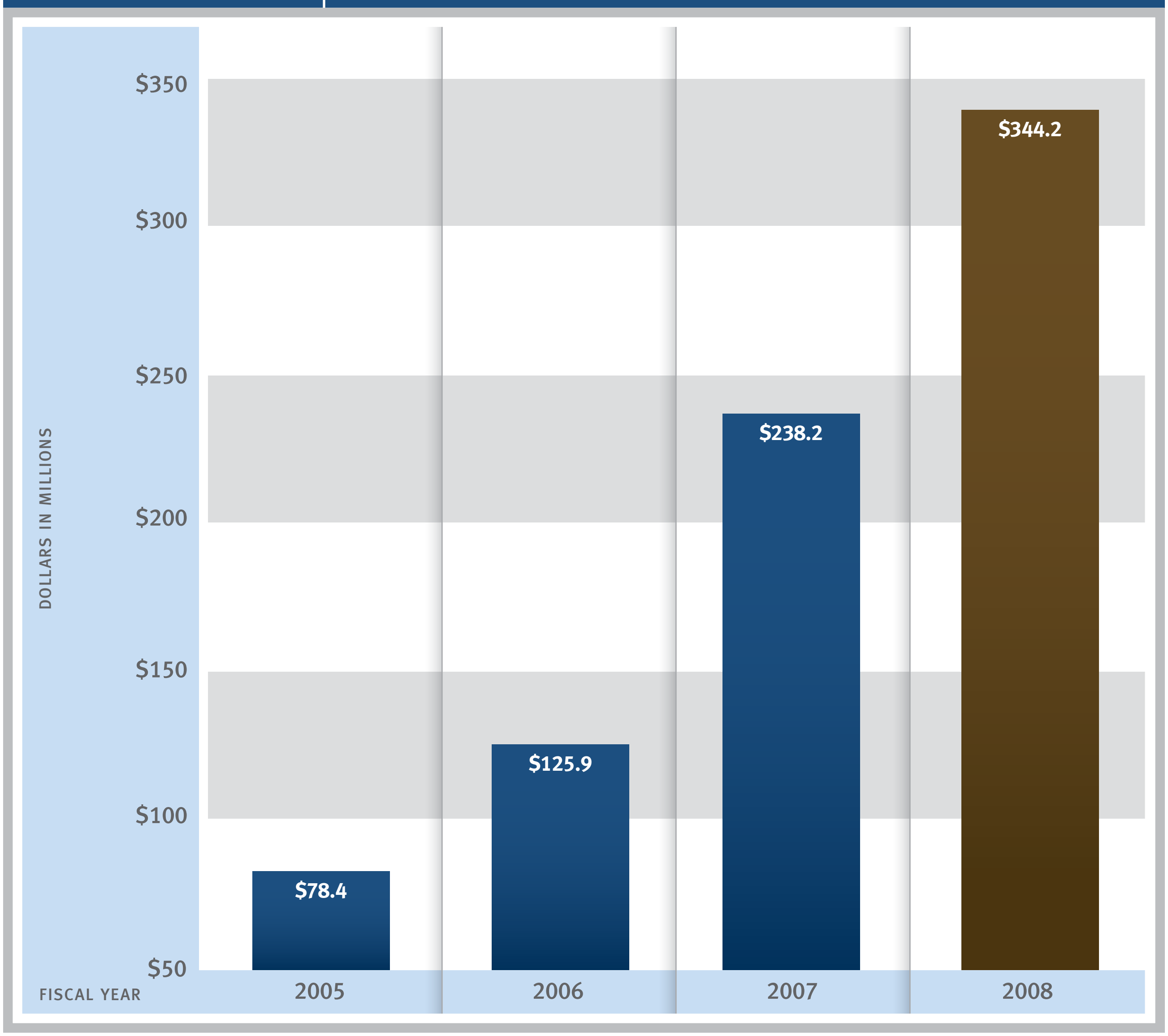
In order to solve this economic train wreck our government and governments around the globe are going to have to think differently. Simply lowering interest rates won't cut it. If a bank isn't willing to make a loan at 10 percent, why would it be more willing to make that same loan at eight percent? Governments are probably going to have to be willing to intervene directly into the capital markets in a manner they have never contemplated.

This is a systemic problem. This is a world wide problem. Even if we do everything correctly here in the U.S. but the rest of the world fails, our economy will probably get negatively impacted anyway. The bottom line is that our economy is falling; what the U.S. government is doing right now is trying to cushion how hard we fall.

The state's Treasury Portfolios are the hub of the state's cash management program. Made up of the commingled General Fund and other segregated portfolios managed by the Treasury, the Treasury Portfolios are the mechanism for managing fixed income investments that benefit programs such as the state's artificial reef building program, lifetime hunting and fishing licenses, and the START college savings plan to name a few. It is the Treasury Portfolios through which the great majority of the state's funding and expenditures flow. The Treasury Portfolios finished FY 2008 with $7.9 billion in invested balances, providing over $344.2 million in earnings from investment activities, and had a cash basis simple yield of 4.54 percent.

NOTE: Beginning with the FY 2006 Annual Report, these figures represent the earnings allocated to all accounts in the State Treasury except those of the LEQTF, Medicaid, Millennium, and Transportation Trust Funds. Therefore, the historical numbers presented here will differ from those reported in past annual reports.

TREASURY PORTFOLIOS | Earnings from Investment Activities



Source: Advantage Financial System (AFS), the state's centralized accounting system.

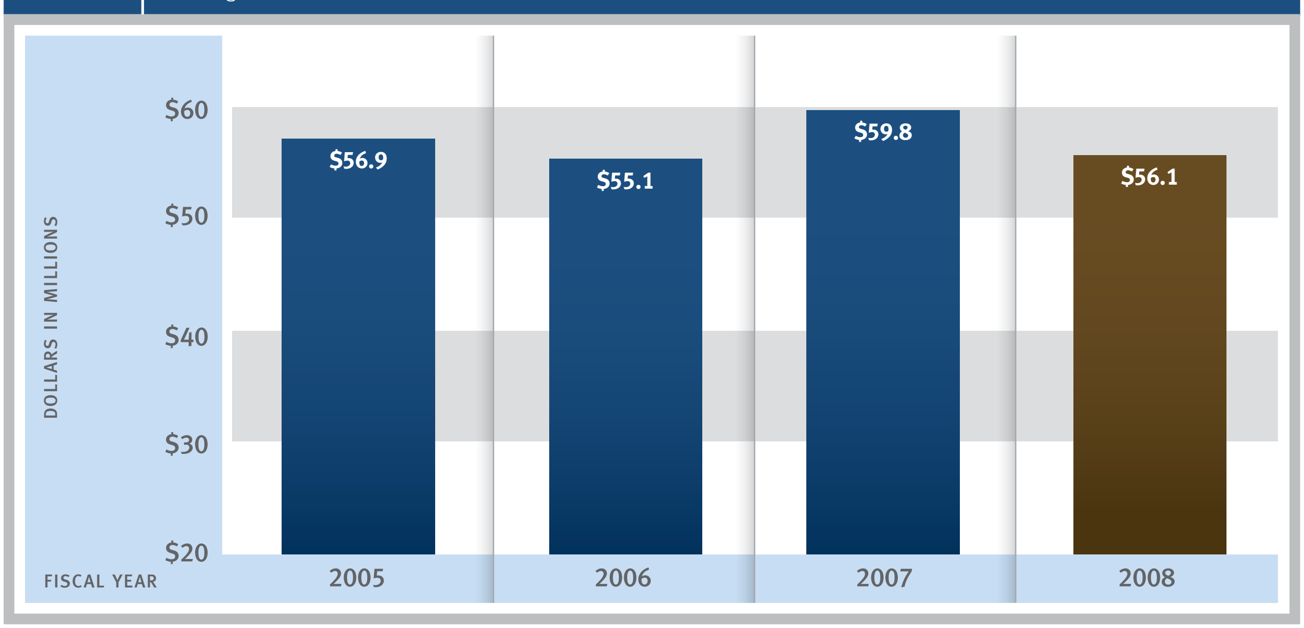
THE LOUISIANA EDUCATION QUALITY TRUST FUND

In 1986, the Louisiana Legislature and the people of Louisiana amended the state constitution to create the LEQTF, which stands for the Louisiana Education Quality Trust Fund. The money for the LEQTF came from the Federal Outer Continental Shelf Lands Act, and the state chose to dedicate the money it received from Congress to improve the quality of education in Louisiana. The LEQTF established a pool of money in which the investment income generated by the fund is dedicated to the sole purpose of providing educational enrichment programs. The LEQTF established as beneficiaries, the Board of Elementary and Secondary Education (BESE) and the Board of Regents (Regents). Allocations to BESE for pre-kindergarten through 12th grade education and Regents for all public post high school education are as follows: 75 percent of the earnings from investment income and royalty income and 25 percent of the earnings from net capital gains.

With the passage of this amendment, roughly $541 million was placed in the LEQTF. Since then, the LEQTF has grown to a market value of over $1.058 billion and has paid out more than $1.22 billion in earnings to Regents and BESE, making it a stable source of revenue for a variety of educational enhancements and opportunities for Louisiana students at every level of education. In FY 2008, the Treasury earned $89.0 million in income for the LEQTF, including interest, dividends, capital gains, securities lending and royalty income. In FY 2008, the LEQTF allocated $33.7 million to BESE and $33.9 million to Regents, providing over $67.6 million in additional funding for educational enrichment programs such as classroom computers, teacher training, matching grants and research.

Act 802 of the 1990 Regular Session of the Legislature requires that investment earnings of the LEQTF be measured against the Two-year U.S. Treasury Note and the 30-day U.S. Treasury Bill. For FY 2008, the LEQTF bond portfolio earned a total rate of return of 2.54 percent, while the Lehman Brothers Government Credit Bond Index – the portfolio's internal benchmark – earned 7.39 percent. However, the LEQTF's bond portfolio is managed to maximize investment income for its beneficiaries. Total return is a time weighted measure of actual income received during the year, plus accrued income and any change in the price of portfolio securities and cash at the end of each year. For FY 2008 the return of the 30-day U.S. Treasury Bill was 2.96 percent and the return of the Two-year U.S. Treasury Note was 7.66 percent. The LEQTF equity portfolio's total return was -12.99 percent, versus widely used benchmarks like the S&P 500 Index return of -13.12 percent. For FY 2008, the LEQTF had $56.1 million in earnings (including capital gains) from investment activities and a cash basis simple yield of 5.39 percent.

LEQTF | Earnings from Investment Activities



Source: Advantage Financial System (AFS), the state's centralized accounting system.

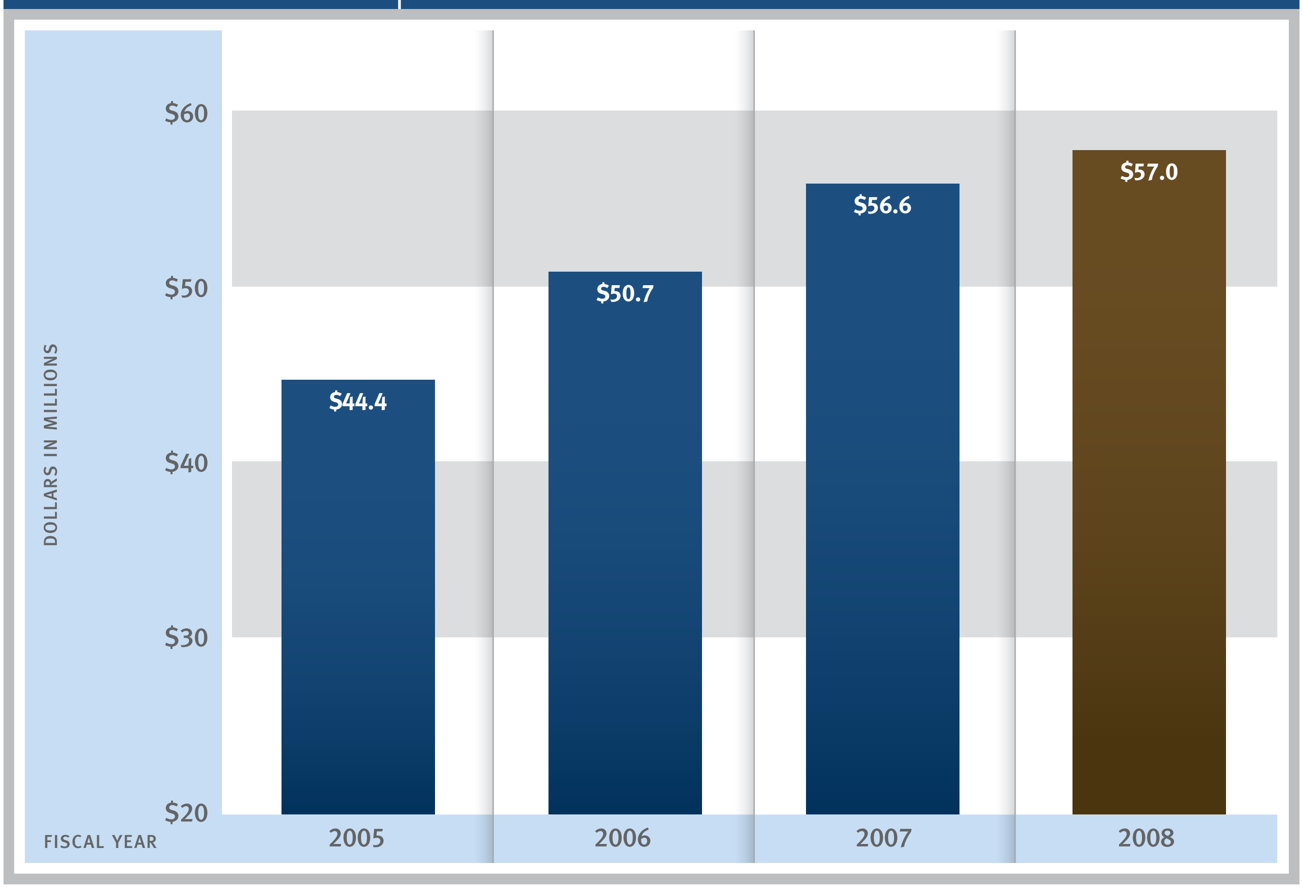
THE MILLENNIUM TRUST FUND

In 1999, the Louisiana Legislature and the people of Louisiana amended the state constitution to create the Millennium Trust Fund. Also created were three special beneficiary funds within the Millennium Trust. These beneficiaries are the Health Excellence Fund, the Education Excellence Fund, and the TOPS Fund. Most of the funding for the Millennium Trust came in 2001, when at the urging of State Treasurer Kennedy, Louisiana sold 60 percent of its portion of a settlement with tobacco companies and dedicated the proceeds to healthcare, education and the TOPS scholarship program.

Since 2001, the Millennium Trust Fund investment balance has grown from $912 million to over $1.32 billion. For FY 2008, the Millennium Trust Fund's market value was $1.32 billion, and the fund earned a total return rate of 4.70 percent. The Millennium Trust's equity portfolio's total return was -11.88 percent, outperforming widely used benchmarks like the S&P 500 Index return of -13.12 percent.

Because the funding for the Millennium Trust was derived from the securitization of the tobacco settlement by issuing municipal bonds, a significant portion of the proceeds are invested in tax-exempt municipal bonds due to Internal Revenue Service bond arbitrage rules. The Millennium Trust's tax-exempt fixed income portfolio's total return was 5.25 percent, outperforming a blended Lehman Brothers Municipal Bond Index return of 3.96 percent. The Millennium Trust's taxable fixed income portfolio's total return was 6.48 percent, underperforming the widely used Lehman Brothers Government Credit Bond Index return of 7.39 percent. The fund's earnings from investment activities totaled $57.0 million this fiscal year, and the fund's cash basis simple yield was 4.47 percent.

MILLENNIUM TRUST FUND | Earnings from Investment Activities



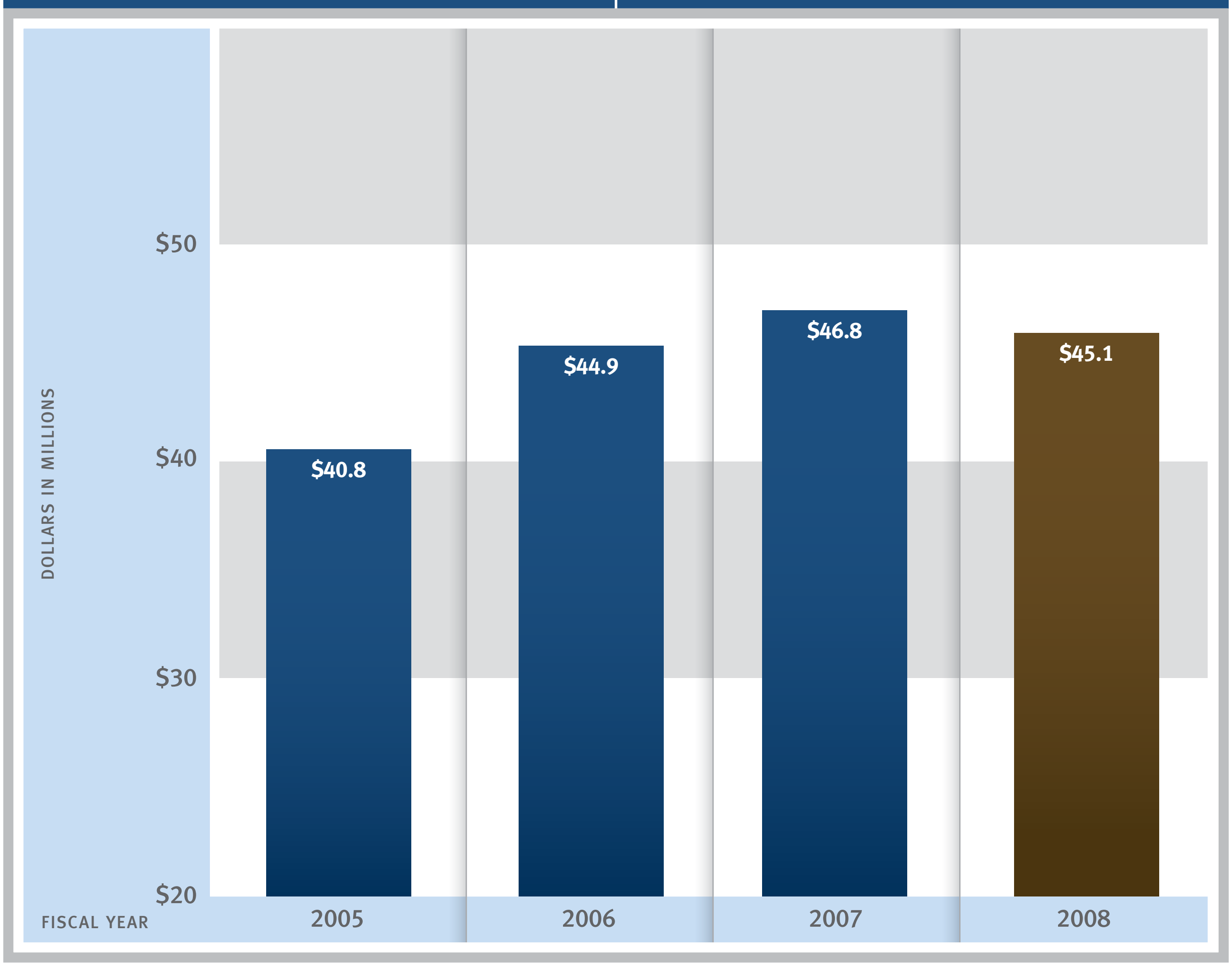
Source: Advantage Financial System (AFS), the state's centralized accounting system.

THE MEDICAID TRUST FUND FOR THE ELDERLY

The Medicaid Trust Fund for the Elderly was created as a permanent trust fund in the State Treasury by Act 143 of the 2000 First Extraordinary Legislative Session. The Medicaid Trust provides funding for elderly healthcare and nursing home expenses. The Medicaid Trust was funded by intergovernmental transfers from the U.S. government and the state. The Trust benefits the state Department of Health and Hospital's Medicare program in Medicare certified nursing homes and Medicare programs subject to federal financial participation in matching funds. The principal in the fund is not subject to appropriation except as specifically provided for in the act. Only earnings on investments from the fund may be appropriated each fiscal year for services of the state Medicaid program in the priority as provided in the act. In 2006, the Louisiana Legislature and the citizens of Louisiana amended the consitution to allow the Medicaid Trust Fund to invest in stocks.

The balance of the Medicaid Trust Fund for the Elderly exceeds $800 million. In FY 2008, the Medicaid Trust Fund for the Elderly earned $45.1 million from investment activities and had a cash basis simple yield of 5.42 percent. The market value of the fund was $817.8 million for FY 2008. The total rate of return for the Medicaid Trust Fund was 4.47 percent during FY 2008, underperforming the widely used Lehman Brothers Government Credit Bond Index return of 6.16 percent.

MEDICAID TRUST FUND FOR THE ELDERLY | Earnings from Investment Activities



Source: Advantage Financial System (AFS), the state's centralized accounting system.

BIDLOUISIANA

In 2000, Treasurer Kennedy implemented an internet auction system called BidLouisiana to award time deposits to Louisiana financial institutions that enter the highest competitive bid for CD rates. From its inception through the end of FY 2008, the Treasury conducted 29 quarterly auctions using this highly effective internet based system. Since the program began, the 70 participating banks have submitted 2,542 bids for over $2.4 billion and 563 winning bidders have been awarded $1.36 billion in CDs. By using BidLouisiana to competitively bid state funds for CD investments, the Treasury awarded $310 million in CDs and received $195,246 in additional earnings for the state during FY 2008 for a total of $869,561 in additional earnings since the inception of the BidLouisiana program.

CDs reward the state in multiple ways. The Treasury invests in CDs because they are a widely accepted fixed income investment that offers a relatively high degree of safety. Financial institutions eagerly participate in the BidLouisiana system because it provides regular access to a large source of funds for banking activities. Finally, the people of the state win because they benefit from the loans created by the financial institutions' access to a large source of funding.

The Treasury markets BidLouisiana directly to financial institutions to increase the awareness of and participation in the program. Louisiana financial institutions can access information on the BidLouisiana internet auction system by logging on to www.bidlouisiana.com.

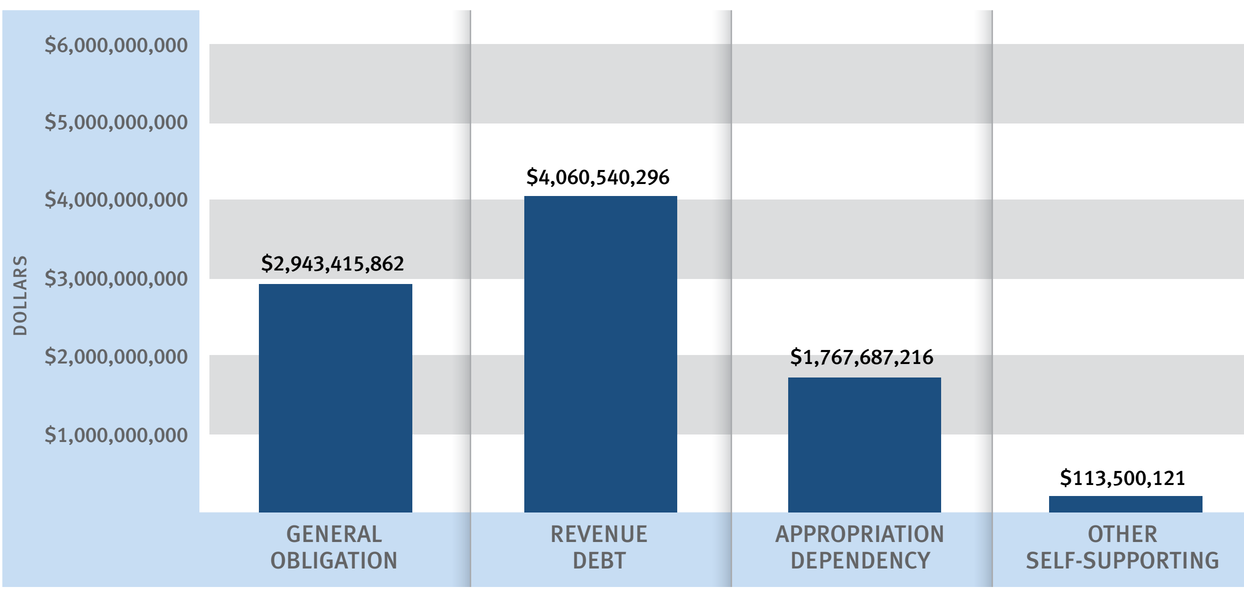
STATE CREDIT RATING AND DEBT

Due to the uncertainty created by the impacts of Hurricanes Katrina and Rita which struck Louisiana in August and September of 2005, the national credit rating agencies in late 2005 lowered the state's General Obligation Bond rating by one level each (Moody's from A1 to A2, Fitch and Standard and Poor's from A+ to A) and placed the state on credit watch. Areas of concern cited included: unknown severity of property and economic damage, population impacts, unknown level of required local support, reduced economic activity, and the unknown level of financial assistance to be provided by the U.S. Congress. In March 2006 all three rating agencies removed the state from credit watch but upheld the lowered ratings level and negative outlook status. In August 2006, all three rating agencies retained either the A2 or A rating but raised the outlook status to stable. As a result of the Treasury's and the Administration's continued dialog with the rating agencies, the rating agencies in July 2008 raised the state's General Obligation Bond rating by one level each (Moody's from A2 to A1, Fitch from A to A+, and Standard and Poor's from A to A+). Louisiana's ratings are now back to pre-storm levels.

NET STATE TAX SUPPORTED DEBT (NSTSD)

The following chart illustrates the categories included in the definition of NSTSD, and the various types of debt included in each category:

NSTSD TOTAL OUTSTANDING DECEMBER 31, 2008 PRINCIPAL AND INTEREST



** General Obligation includes ALL outstanding General Obligation Bonds with the exception of the GO Match Bonds Series 2006B and GO Refunding Bonds Series 2008A.*

** Revenue Debt includes State of Louisiana-Gasoline and Fuels Tax Revenue Bonds (Series 2002A, Series 2005A, and Series 2006A) payable from the proceeds of the four-cent per gallon gasoline and special fuels tax.*

** Appropriation Dependency Debt includes Office Facilities Corporation (Series 1999A and 1999B, 2001, and 2003); LPFA Hotel Dieu (2002); Louisiana Correctional Facilities Corporation (Series 2007A); LPFA-Department of Public Safety Fire Marshal's Headquarters Project (Series 2002A); LCDA-Bossier Parish Community College Facilities Corporation (Series 2003); LCDA-Baton Rouge Community College Facilities Corporation (Series 2002 and 2003); Lafayette Public Trust Financing Authority-South Louisiana Community College Facilities Corporation (Series 2002); and Cooperative Endeavor Agreement commitments associated with the following: LPFA-SU Foundation Millennium Housing Project (Series 2006A); UNO Project (Series 2006B); the England District Sub-District No. 1 Revenue Bonds (Series 2005); the CG Railway Project (Series 2006); the La. Transportation Authority-LA1 Project Revenue Bonds (Series 2006A and B); the LPFA-LSUA Housing Project (Series 2006C); LPFA-Hurricane Recovery Program (Series 2007A); LCFC-Tallulah Correctional Facility Project (Series 2007A); LAFA-Woodworth Office Building Renovation (Series 2007B); LAFA-General Office Building Renovation (Series 2006A); LAFA-Multiple Building Renovation Project (Series 2007A); LAFA-Lacassine Syrup Mill Project (Series 2004A); LCTCS-Delta Campus Facilities Corporation (Series 2008); and IDB of City of New Orleans (Series 2008A).*

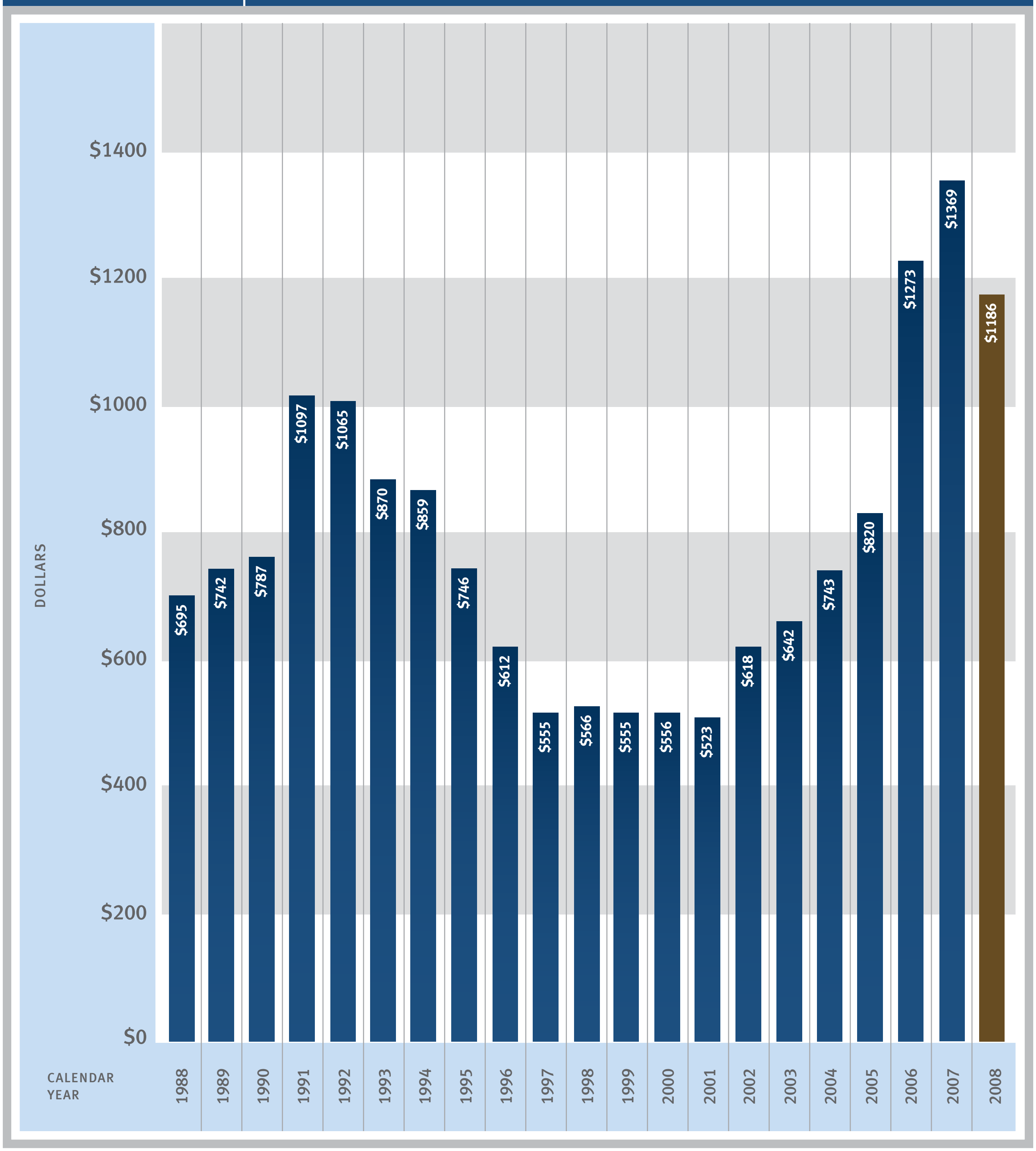
** Other Self-Supporting Debt includes Crescent City Connection (Series 2002A); Greater Baton Rouge Port Commission (Series 1999A and B); Greater New Orleans Expressway Commission (Series 2003A).*

STATE CREDIT RATING AND DEBT

NSTSD PER CAPITA

The chart below depicts the amount of NSTSD per capita for calendar years 1988–2008.

NTSD PER CAPITA December 31, 2008



DEBT ISSUANCES DURING FY 2007

On July 12, 2006, the state, at the urging of Treasurer Kennedy and in response to the need to assist local political subdivisions as the result of Hurricanes Katrina and Rita, issued State of Louisiana General Obligation Gulf Tax Credit Bonds, Series 2006A and State of Louisiana General Obligation Match Bonds, Series 2006B in the amounts of $200,000,000 and $194,475,000, respectively. The state then loaned the proceeds of these bonds to local governments affected by Hurricanes Katrina and Rita, so they could timely pay the principal and interest on their outstanding debt issued prior to August 28, 2005.

The Series 2006A were done as tax credit bonds with a two year maturity and the Series 2006B were done as match bonds with a 20 year maturity under the provisions of the federal Gulf Opportunity Zone Act of 2005. The Series 2006A bonds were expected to be refunded with proceeds of the state's General Obligation Refunding Bonds, Series 2008A, on July 17, 2008. The Series 2008 bonds were to be issued in conjunction with a forward bond purchase agreement, which commits several underwriters to purchase the Series 2008A no later than July 17, 2008. Concurrent with the execution of the forward bond purchase agreement, a floating to fixed swap agreement was entered into in order to mitigate future interest rate exposure for this series. *Pursuant to La. R.S. 39:1367E(2)(b)(iii), the Series 2006A and B bonds and the Series 2008A bonds are not considered Net State Tax Supported Debt.*

On September 21, 2006, the state issued State of Louisiana General Obligation Bonds, Series 2006C in the amount of $500,000,000 for the purpose of funding a portion of the previously issued internal lines of credit that had been issued to finance approved capital outlay projects for various purposes.

On October 18, 2006, the state also issued State of Louisiana Gasoline and Fuels Tax Revenue Bonds 2006 Series A in the amount of $1,107,490,000 for the purpose of providing funds to finance the construction of certain highway and bridge projects generally known as the Transportation Infrastructure Model for Economic Development (TIMED) projects.

On December 21, 2006, the state committed to issue State of Louisiana Gasoline and Fuels Tax Revenue Bonds, Series 2008A in the amount of $485,000,000 for the purpose of

providing additional funds to finance the construction of TIMED projects. The bonds were to be issued in conjunction with a forward delivery contract and utilized a floating to fixed swap mechanism in order to mitigate future interest rate exposure for the Series 2008A bonds. As a result of the deteriorating financial markets and the collapse of the underlying insurer providers CIFG and XL, the ability to issue by December 1, 2008, as stipulated in the forward delivery and swap agreements, was not possible. As the result of negotiations with underwriters and swap providers, the projected issuance was delayed to May 1, 2009.

On May 7, 2009, the state issued State of Louisiana Gasoline and Fuels Tax Second Lien Revenue Bonds (VRDO), 2009 Series A-1 in the amount of $200,000,000 with a maturity date of May 1, 2043. Concurrently, the state issued State of Louisiana Taxable Gasoline and Fuels Tax Second Lien Revenue Bonds (Build America Bonds), 2009 Series A-2 in the amount of $103,125,000 with a projected maturity date of May 1, 2043 (though the issue does have a put option of May 1, 2012). On May 27, 2009, the state issued State of Louisiana Gasoline and Fuels Tax Second Lien Revenue Bonds (Build America Bonds), 2009 Series A-3 in the amount of $121,250,000 with a swap termination date of May 1, 2012 and a hard put on the bonds of May 1, 2014. In addition, it is anticipated the state will issue, prior to July 15, 2009, State of Louisiana Gasoline and Fuels Tax Second Lien Revenue Bonds, 2009 Series A-4 in the amount of $60,625,000 again with a stated maturity date of May 1, 2043, which will have a hard swap termination date of May 1, 2012 and a hard put date on the bonds of May 1, 2012.

DEBT ISSUANCES DURING FY 2008

During FY 2008, the state did not issue any new money General Obligation Bonds. However, during that period, the issuance of several non-General Obligation Bond issues occurred which fall under the definition of Net State Tax Supported Debt totaling approximately $390,675,000. The primary issues were: (a) the $283,465,000 Louisiana Public Facilities Authority ("LPFA") Revenue Bonds (Hurricane Recovery Program) Series 2007, which were issued on November 13, 2007 and are supported by a cooperative endeavor agreement between the state, the City of New Orleans ("city"), the Sewerage and Water Board of New Orleans ("Sewerage Board"), and the LPFA, in which the state is required to provide, subject to appropriation, approximately $23,000,000 per year to the city and the Sewerage Board to provide funds to pay debt service on the bonds; (b) two issuances of the Louisiana Agricultural Finance Authority totaling $31,000,000 and $6,000,000, respectively, which closed on March 26 and October 30, 2007 respectively; and (c) a $23,210,000 issue of the Louisiana Correctional Facilities Corporation for the acquisition of the facility formerly known as Swanson Correctional Center for Youth, which closed September 24, 2007, also supported by a cooperative endeavor agreement in which the state is required to provide, subject to appropriation, funds to pay debt service on the bonds.

DEBT ISSUANCES DURING FY 2009

The State Bond Commission at its June 15 and July 13, 2006 meetings authorized the issuance of $200,000,000 in General Obligation Refunding Bonds Series 2008A in order to provide funds to refund the General Obligation Tax Credit Bonds Series 2006A. On July 16, 2006, the SBC authorized the state, through the commission, to enter into a Forward Purchase Delivery Contract with Morgan Keegan & Co. (as senior managing underwriter) and Goldman, Sachs & Co. (as co-senior manager) to set terms and obligations for the issuance by the state of $200,000,000 on July 17, 2008 of variable rate bonds to be acquired by the underwriters for an aggregate purchase price of $200,000,000. The 2008 Series A bonds were issued on July 17, 2008 as Variable Interest Rate Bonds, and shall mature by July 17, 2026. *Pursuant to La. R.S. 39:1367E(2)(b)(iii), the Series 2008A bonds are not considered Net State Supported Debt for state law purposes.*

The state also authorized the issuance of the LCDA (LCTCS-Delta Campus Facilities Corporation) Revenue Bonds in an amount not to exceed $45,000,000. This is considered Net State Tax Supported Debt. That issue closed on November 21, 2008, in the amount of $42,470,000. The underlying security for the debt is a cooperative endeavor agreement between the LCTCS, the corporation, the LCDA and the state in which the state is required to provide, subject to appropriation, approximately $3,125,000 per year to pay for debt service and an additional $1,500,000 per year for other requirements for a period not to exceed 31 years.

Louisiana is projected to issue $200,000,000 LCDA-Louisiana Community Technical College Facility Corporation Project Revenue Bonds in calendar year 2009, which will be supported by a cooperative endeavor agreement between the LCTCS, the corporation, the LCDA and the state in which the state is required to provide, subject to appropriation, approximately $17,255,000 per year to pay for debt service and an additional $4,000,000 per year for other requirements beginning in FY 2009–2010 and extending through FY 2028–2029. The proceeds will be used to construct and provide improvements to a number of the state's community college and vocational technical institutions across the state.

"In December 2005, Congress passed and the President signed the Gulf Opportunity Zone Act which was intended to drive economic restoration and recovery of communities impacted by Hurricanes Katrina and Rita."

In December 2005, Congress passed and the President signed the Gulf Opportunity Zone Act to drive economic restoration and recovery of communities impacted by Hurricanes Katrina and Rita. The Act gives Louisiana the authority to allocate, by December 31, 2010, approximately $7,900,000,000 in tax-exempt private activity bonds ("GO Zone bonds") with proceeds used to finance the costs of qualified private sector projects at lower interest rates. The program is administered through the State Bond Commission. Through December 31, 2009, approximately $6,500,000,000 has been allocated to qualified projects in 31 parishes, and of that amount approximately $4,950,000,000 in GO Zone bonds have been issued.

In January 2009, Congress passed and the President signed the Emergency Economic Stimulus Act of 2008. Section 704 of the act amended provisions of the Gulf Opportunity Zone Act of 2005 to provide a separate tax-exempt bond financing program (similar to the original GO Zone Program) for 20 parishes that were impacted by Hurricane Ike in 2008. The program, which provides approximately $383,000,000, is open through December 31, 2012 and will be administered through the State Bond Commission. The program was started in January 2009 and has already received applications in excess of $75,000,000.

UNCLAIMED PROPERTY

The Treasury's Unclaimed Property Division (UCP) is responsible for finding owners of unclaimed, intangible personal property that has been turned over to the state. This includes payroll checks, checking and savings accounts, royalties, utility deposits, interest, dividends, stock certificates and life insurance proceeds.

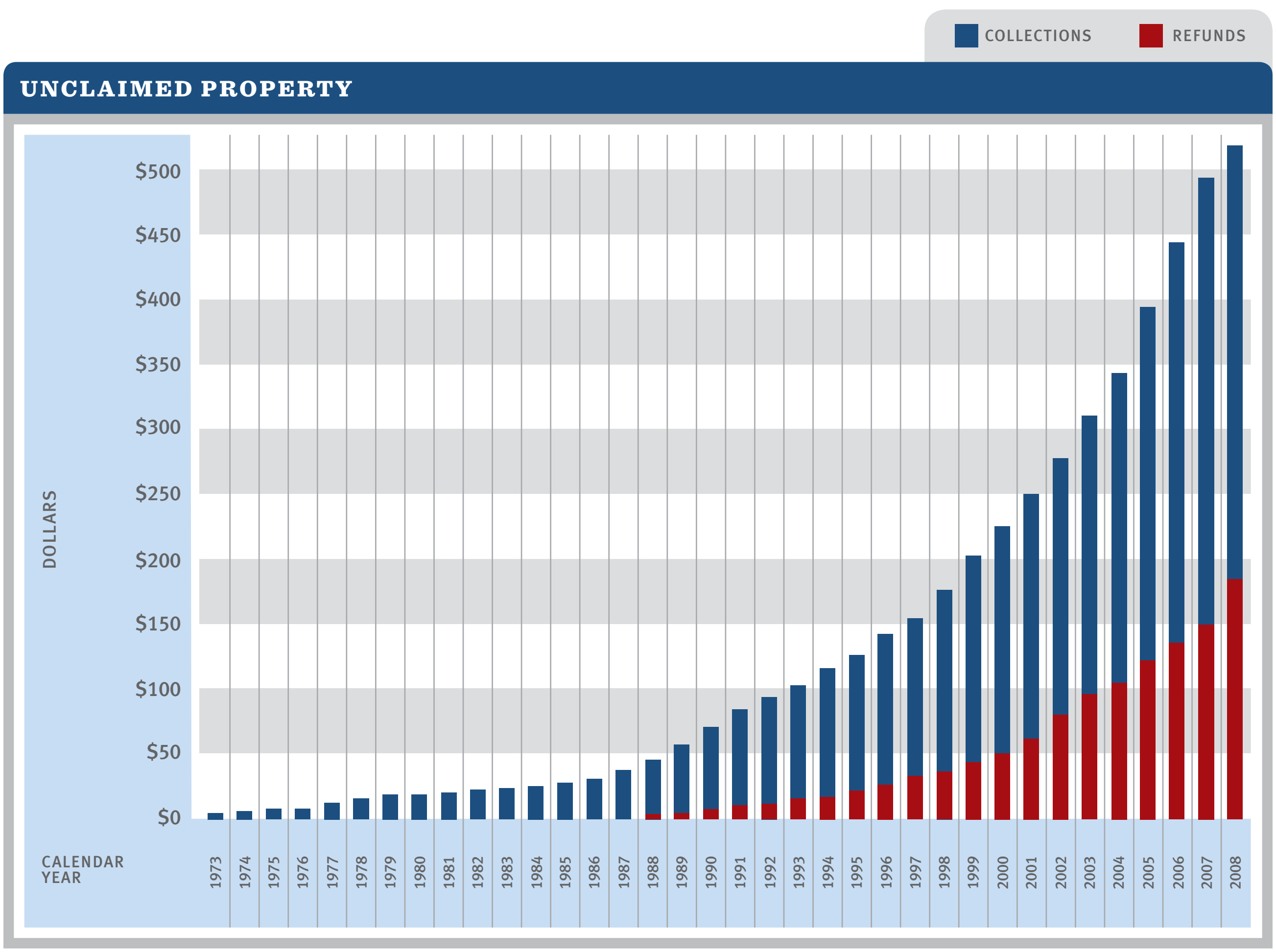
One in six people in Louisiana has unclaimed property listed with the state, and the average refund is $300 to $400, although some amounts are in the several thousands of dollars. There is no fee for collecting unclaimed property through the Treasury, and there is no expiration date for making a claim.

With the support and assistance of the Louisiana Legislature, and because of continued efforts to increase the public's awareness about the program, the state has collected $535.5 million and returned $175.2 million since the unclaimed property law was passed in 1972.

In FY 2008, the Treasury collected a record $52.6 million in unclaimed property from businesses and other entities and refunded another record $21.7 million to rightful owners. Louisiana's program is recognized as one of the best in the nation and has been featured twice on national television.

The UCP Division continues to operate its toll-free number nationwide, and citizens across the United States can see if the state is holding their money by calling 1-888-925-4127.

The Treasury has also joined with other states to participate in www.MissingMoney.com, a website that maintains a national database of state unclaimed property records. The Treasury sends out periodic email notices with helpful information when new property is added to the database.



UNCLAIMED PROPERTY

UNCLAIMED PROPERTY AUDITING PROGRAM

On the compliance side, the in-state auditing program continues to ensure that holders are complying with the unclaimed property law. In addition, the Treasury has devoted resources to increasing the number of potential holders in its database and has been educating them on their duties of reporting unclaimed property.

UNCLAIMED PROPERTY SECURITIES LEGISLATION

Act 573 of the 2006 Regular Legislative Session reduced the amount of time before a security could be considered abandoned to three years from five years. This change allows the Unclaimed Property Division to locate rightful owners and return their investments much sooner. Holder reports indicate that the total number of shares of stock reported as unclaimed property more than tripled in the first year and more than doubled in the second year after the change.

UNCLAIMED U.S. SAVINGS BONDS

U.S. Sen. Jay Rockefeller (W.Va.) and U.S. Sen. Pat Roberts (Kan.) have filed federal legislation in Congress that would reunite millions of Americans with matured U.S. savings bonds. S. 827, also known as the "Unclaimed Savings Bond Act of 2009," would create a state-federal partnership to help find the owners of more than 40 million savings bonds worth more than $16.5 billion.

Congressional instrument S. 827 authorizes a pilot program for the U.S. Treasury to digitize the records of matured savings bonds and create a searchable database. It also creates block grants for states to notify owners and help them redeem their bonds. As always, individual bond holders would have the option of cashing in their bonds or continuing to hold them.

The Treasury's Social Security Division is responsible for administering the Section 218 Social Security and Medicare coverage program for all public governmental employers throughout the state of Louisiana. The division serves as a facilitator between employers and the U.S. Social Security Administration (SSA) and Internal Revenue Service (IRS).

Beginning in 1951, Section 218 of the Social Security Act authorized states to voluntarily elect Social Security coverage for certain public employees who were not already covered under a retirement plan. These federal-state agreements, often referred to as Section 218 agreements, were entered into with the Social Security Administration.

Treasurer Kennedy is an advocate for preserving public employee retirement plans, especially for those who are not covered under Social Security. Mandating public systems to participate in Social Security when they choose not to would jeopardize the financial stability of the systems and would adversely impact the benefits that participants receive.

MEDICARE-ONLY AND/OR SOCIAL SECURITY REFERENDA

Federal legislation supported by Treasurer Kennedy allows the state to offer the option of divided vote referenda for Medicare and/or Social Security coverage under Section 218 of the Social Security Act.

A divided referendum helps individual Louisiana public employees as well as their state and local government employers by providing an opportunity for "Medicare-Only" coverage for employees hired prior to April 1, 1986. The divided referendum enables employees who vote "yes" to pay Medicare and employees who vote "no" to not pay Medicare.

Generally, individuals must have 40 Social Security/Medicare credits to be eligible for premium-free "Part A" Medicare at age 65. Nationwide 1 percent of state and local government employees do not qualify for premium-free Medicare Part A based on their own – or their spouse's – employment.

Louisiana saves millions of dollars by using divided referenda to allow employees to become "retirees with Medicare." This means Medicare is primary and an employer's health insurance is secondary. The Treasury's Division of Social Security is responsible for conducting each referendum at the request of the employer or the retirement system. As of January 2009, a total of 143 Medicare-Only referenda have been scheduled at 80 local government agencies in Louisiana allowing approximately 35,000 government workers the option of paying the Medicare tax. These figures include approximately 10,000 state employees, all universities, 38 parish school boards and other local agencies. For more information, visit www.latreasury.com, and go to the Social Security Division page.

> **"It is estimated that Louisiana could save millions of dollars by using divided referenda to allow more employees to become 'retirees with Medicare.'"**

GPO AND WEP

If a public employee who is covered under an independent public retirement plan has paid into Social Security at some point in his or her life, there are currently two provisions in Social Security that adversely affect the receipt of benefits. The first is called the Windfall Elimination Program (WEP), which reduces Social Security benefits for people who have spent most of their careers in government but who have also worked in private industry. The other provision is called the Government Pension Offset (GPO), which reduces—and in some cases eliminates—the Social Security benefit due to a government employee as a spouse. Social Security benefit statements do not calculate the GPO or WEP, and this leads government retirees to have higher pension expectations than they should. Treasurer Kennedy supports federal legislation that would eliminate or reduce the detrimental effects of the GPO and the WEP on retirees in Louisiana.

ONGOING INITIATIVES

START

START, which stands for the Student Tuition Assistance and Revenue Trust, is the state's 529 plan that helps people save money for a child's expenses at any approved university, vocational technical school or community college. The program is tax-free, and START investors can deduct up to $2,400 in deposits per account per year ($4,800 per year if married filing jointly) from income reported on their state income tax returns. If account owners are unable to use the full $2,400 or $4,800 deduction in one year, they can carry forward the unused portion to subsequent filing years.

At the end of the 2008 calendar year, START had grown to 32,006 accounts and $179.2 million in deposits. The Treasury manages fixed income investments in START, called the Principal Protection option, which totaled 53.1 percent of all START monies (or $95.2 million) in calendar year 2008. This portion of the portfolio earned a rate of return of 5.28 percent for the calendar year.

The Vanguard Group manages equity investments (mutual funds) in START, which totaled 46.8 percent or $83.9 million in 2008. Depending on the Vanguard option chosen, the rate of return ranged from -44.1 percent up to -10.5 percent for the calendar year.

OPTION 1: AGE-BASED OPTION

Vanguard LifeStrategy Moderate Growth Portfolio *(Age 0–5)*
Vanguard LifeStrategy Conservative Growth Portfolio *(Age 6–10)*
Vanguard LifeStrategy Income Portfolio *(Age 11–15)*
Louisiana Principal Protection Option *(Age 16+)*

OPTION 2: LOUISIANA PRINCIPAL PROTECTION OPTION

100% Louisiana Fixed-Return Portfolio

OPTION 3: TOTAL EQUITY OPTION

100% Vanguard Total Stock Market Index Portfolio

OPTION 4: BALANCED OPTION

50% Fixed Income Investments and 50% Stocks

OPTION 5: EQUITY-PLUS OPTION

75% Stocks and 25% Fixed Income Investments

OPTION 6: PRINCIPAL PRESERVATION-PLUS OPTION

75% Fixed Income Investments and 25% Stocks

OPTION 7: EQUITY PLUS INTERNATIONAL INVESTMENT OPTION

80% U.S. Stocks and 20% International/Global Stocks

More information is available by contacting the Treasury's Investments Division at (225) 342-0010 or by visiting the Treasury's website at www.latreasury.com

ONGOING INITIATIVES

LAMP

The Louisiana Asset Management Pool (LAMP) is a cooperative endeavor that combines the efficiency of private enterprise with the protection of public policy. LAMP is managed by LAMP, Inc., a non-profit corporation that allows local officials to pool public funds and benefit from professional money management dedicated to preservation of principal, daily liquidity and a competitive rate of return. Treasurer Kennedy serves as President of the LAMP, Inc. Board of Directors.

Since its inception, LAMP has generated $478.4 million in interest for Louisiana public agencies. At the end of FY 2008, LAMP assets reached $2.21 billion with 608 participants and 2,907 active accounts. LAMP continues to earn a Standard & Poor's rating of AAAm, the highest designation available.

In October of 2006, the board of directors for LAMP agreed that the program's administrative fees could be reduced without adversely affecting service to pool participants. As a result, we implemented the LAMP Fee Rebate Program. With the Fee Rebate Program, LAMP will rebate back to pool participants any excess income not needed to pay expenses.

LAMP charges a total expense of less than 1/5 of 1 percent to pay for all fees associated with operating the pool. In 2006, we refunded a little more than $454,000 in fees; in 2007, we refunded $1.19 million; in 2008, we refunded $1.67 million; and in 2009, we refunded $600,000 to program participants. The total refunded since the Fee Rebate Program's inception is $3.9 million.

As LAMP grows in participants and assets, the pool looks forward to issuing more rebates in the future. For more information, visit LAMP's website at www.lamppool.com.

ONGOING INITIATIVES

EARNED INCOME TAX CREDIT (EITC)

The Treasury continues to encourage working families in the state to claim the federal Earned Income Tax Credit (EITC). The EITC provides low-income workers with a rebate of all or a portion of the federal income taxes they pay each year. It is one of the most important tax breaks available for hard-working families in the state, and the maximum credit for the 2008 tax year was $4,824.

According to The Brookings Institute, Louisiana residents claim an estimated $1 billion in federal Earned Income Tax Credits each year. However, Louisiana families miss out on approximately $100 million in additional unclaimed Earned Income Tax Credits annually.

For the first time, in the 2008 tax year, Louisiana residents could also claim a state earned income credit which amounted to 3.5 percent of the federal EITC. Tax filers who were eligible to claim the federal EITC were automatically eligible for the state credit. The state earned income credit could result in an additional refund of up to $168 for Louisiana EITC recipients.

ONGOING BANKING AND CASH MANAGEMENT INITIATIVES

The Treasury's Cash Management Review Division continues to look for ways state government can save money when providing basic services to citizens.

The Treasury helps state agencies modernize their banking processes by implementing Internet-based agency-to-bank communications. This communications link allows state agencies to initiate online stop pays, wire transfers, Automated Clearing House (ACH) debits and credits, and obtain statement information in a secure and accessible environment.

The Treasury is working with departments to implement online banking services which will improve efficiency and provide greater access to their banking needs.

The Treasury continues to help state agencies implement the latest fraud prevention measures to protect against fraudulent check writing and electronic theft. For example, "Positive Pay" provides the bank with check issue information so the bank can recognize fraudulent checks and "ACH Debit Block" prevents unauthorized debits to the state's accounts.

The Treasury continues to help departments modernize the deposit of checks through the conversion of checks received to electronic credits. This process reduces NSF checks and improves cash availability for investment by the Treasury. The Department of Insurance was the first department to take advantage of this service.

> **"The Treasury is working with departments to implement online banking services which will improve efficiency and provide greater access to their banking needs."**

The Treasury has carefully administered line item appropriations in accordance with Executive Order KBB 2006-32, Executive Orders BJ 2008-29 and 2008-30, and legislative directives. The Treasury established a new section in FY 2007 to meet the demands of the growing number of line item appropriations. This section monitors and audits associated cost reports and helps recipients of these appropriations complete the cooperative endeavor agreements.

SUCCESSFUL BANKING INITIATIVES IN FY 2008

During FY 2008, the Treasury assisted many state agencies in implementing electronic banking technologies that will improve their receipt and payment processes.

The Treasury continued to improve the central banking services available for state agencies including Internet-based online check image capture and retrieval and the addition of bank accounts to the ACH debit block to reject unauthorized debit transactions.

Through a Request for Proposals (RFP) process, the Treasury also implemented a new credit and debit card contract to provide state agencies, boards and commissions the ability to accept debit and credit cards at a competitive rate.

CONCLUSION

The Treasury will continue to work with state leaders to fulfill our mission of promoting prudent cash management and investment strategies. We will work tirelessly to continue to improve the state's finances, investment performance and credit rating.

For information about the Treasury that may not be included in this report, please visit www.latreasury.com, or call (225) 342–0010.

State of Louisiana
Department of the Treasury
P.O. Box 44154
Baton Rouge, Louisiana 70804-4154

Phone: (225) 342-0010
Fax: (225) 342-0046

www.latreasury.com

Send your comments via e-mail to:
comments@treasury.state.la.us

Reporting and calculation details:
Beginning in FY 2005, the Treasury implemented a standard for reporting financial figures that is in line with LaPas performance budgeting reporting requirements. Most figures can generally be reported from our Fiscal Division using the ISIS system, but some are more appropriately reported from the division responsible for a particular program's management. While all reported numbers are correct, they cannot be cross-compared to the ISIS calculation. (For example, investment market performance figures obtained from QED for a particular trust fund will differ from ISIS calculations for the same fund).

Cash flow, actual balance, and total investment earnings / income and performance (cash rate of return) figures are reported for all funds using ISIS figures from the Fiscal Division. Individual trust funds other than Treasury Portfolios / General Fund and Rainy Day Fund also report actual market performance figures (income earned, rate of return, market value) from QED. BidLouisiana results are reported from the Investments Division. Unclaimed property figures are reported from the Fiscal Division. State debt information is reported from the State Bond Commission with the exception of total number of debt issues and dollar value of debt service managed, which is reported from the Fiscal Division. LAMP results are reported from LAMP, Inc., and START figures are reported by OSFA with the exception of the fixed income rate of return calculated by the Investments Division (using OSFA data).

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